

AUDIT AND RISK COMMITTEE

30 November 2021

INTERNAL AUDIT DELEGATION

Report of the Strategic Director for Resources

Strategic Aim:	All	
Exempt Information	No	
Cabinet Member(s) Responsible:	Cllr K Payne, Portfolio Holder for Finance, Governance and Performance, Change and Transformation	
Contact Officer(s):	Saverio Della Rocca, Strategic Director for Resources (s.151 Officer)	01572 758159 sdrocca@rutland.gov.uk
Ward Councillors	N/A	

DECISION RECOMMENDATIONS

That the Audit and Risk Committee endorses the recommendation to Council to transfer the internal audit delegation agreement from the existing hosts (Milton Keynes Council, Northamptonshire County Council and Cambridgeshire County Council) to North Northants Council and to extend the agreement for a further five years.

1 PURPOSE OF THE REPORT

- 1.1 To seek the Committee's endorsement to transfer the internal audit delegation agreement from hosts (Milton Keynes Council, Northamptonshire County Council and Cambridgeshire County Council) to North Northants Council and to extend the agreement to March 2027.

2 BACKGROUND AND MAIN CONSIDERATIONS

2.1 Overview

- 2.1.1 In accordance with Section 6 of the Accounts and Audit Regulations 2011, the Chief Finance Officer and the Chief Executive are responsible for maintaining an adequate and effective internal audit of the Council's accounting records, control systems and financial transactions including any operations affecting the financial arrangements or the finances of the Council. The Internal Audit Section is required to comply with the current CIPFA Code of Practice for Internal Audit in Local Government, in undertaking its functions.

2.1.2 This requirement is achieved presently through the current delegation agreement. This arrangement has been in place since 2017 and is underpinned by a delegation agreement. The initial period of the agreement expires in March 2022.

2.2 The future

2.2.1 There are two key considerations:

2.2.2 Are the hosts willing to continue to support the delegation agreement should the Council wish to continue?

2.2.3 Since the delegation agreement was signed there have been some changes following local government reorganisation. East Northants and Corby Councils were part of the original Welland partnership (RCC, Melton BC and Harborough DC being the others) that delegated internal audit to LGSS. The creation of two Unitary Councils in Northamptonshire changes this picture. As it stands:

- The host authorities (Milton Keynes, Cambridgeshire, West Northants and North Northants) will effectively re-patriate their teams from the shared service (LGSS), back in-house;
- For the Welland team, who deliver services entirely for other councils, they will be taken on by North Northants Council, as this seems the best fit and with our Head of Internal now working with NNC;
- The s151 Officer for NNC has assured staff, in early consultation meetings, that she is keen to take these delegated services on and honour these arrangements going forward, TUPE'ing staff who work on them and she can see that the staff are a high quality, performing team;
- As such, the service would remain the same (same HoIA, same auditors and same approach) but our delegation (should we choose to extend it) would be solely to NNC, rather than the current arrangement of delegating to the existing hosts.

2.2.4 There are many benefits to this arrangement as set out in the options analysis in section 2.3.

2.2.5 The Director for Resources has discussed the situation with the s151 Officer of North Northants Council, Ms Janice Gotts and she has confirmed that both she and the Cabinet at NNC wish to take on the delegation agreement on the same basis and fee model.

2.2.6 Is there any reason why the Council would wish to look at alternative options?

2.2.7 The current arrangement with LGSS works well. Performance is good and costs are deemed to be low.

- LGSS are currently working with the Council and have demonstrated that they can deliver what is needed;
- Current performance levels are very good. In particular, the audit plan is delivered in full, reports are of good quality, the relationships with officers and

the Audit and Risk Committee is strong and the team are flexible in their approach;

- The Internal Audit team have demonstrated their ability to be independent in the way they work and report.

2.2.8 In retaining the existing arrangements, the main other benefit would be to minimise disruption and provide continuity as the team are already managing the service.

2.3 Other options

2.3.1 The Council originally considered a range of different delivery models, including:

- Full outsource – the procurement of an internal audit service from an external provider (e.g. professional services firm);
- Co-source – combination of an in-house team and one or more external providers; and
- In house arrangement - internal audit delivered by an internal team, employed by an organisation (or more), and who work across member organisations.

2.3.2 Indicative costs and advantages/disadvantages for each model were discussed previously and have been updated. The results are shown below with notes:

Option	Costs per annum	Advantages/Disadvantages
Full outsource (1)	£160k	<p><u>Advantages</u></p> <ul style="list-style-type: none"> • Greater resilience • Access to wider/specialist resources • No recruitment costs • Potentially better quality but experience of previous Welland partners has been mixed in the past <p><u>Disadvantages</u></p> <ul style="list-style-type: none"> • Contract management required • Continuity of staffing not guaranteed • Increased cost even if external providers argue 10-20% productivity gains • Takes time and cost as procurement process is required (or use of framework if possible) • Change of scope may require changes in contract
Co-source (2)	£180k	Combination of models 1 and 3 but would involve having at least one member of staff plus an external contract
Fully staffed model (3)	£140k	<p><u>Advantages</u></p> <ul style="list-style-type: none"> • Control of staffing

Option	Costs per annum	Advantages/Disadvantages
		<ul style="list-style-type: none"> • Scope of service easily modified <p><u>Disadvantages</u></p> <ul style="list-style-type: none"> • Lack of resilience • Access to specialist advice is limited • Recruitment required and in the past there have been some difficulties in recruitment as pay rates not always competitive in this market • Management of team required
<p>Costs based on days required (320) multiplied by an estimated day rate range of £450-£550 per day following informal discussions with suppliers and knowledge of rates charged elsewhere.</p> <p>In moving to any alternative model the issue of TUPE would need to be considered. We would need to enquire with the existing hosts as to whether they believe it would apply although the initial view from the Head of Internal Audit is that TUPE thresholds are unlikely to apply.</p>		

2.3.3 It should be noted that the cost of our current arrangement is £93,200. This is less than any of the alternatives cited above.

2.3.4 The Director for Resources has discussed the position with other s151 Officers in Leicestershire to understand their view of the current position. Both Melton and Harborough are keen to extend the existing delegation. The conclusion from the analysis was that the current model remains favourable.

3 CONSULTATION

3.1 As internal audit and fraud services are 'back-office' functions, this change will not impact on the public and so has not been subject to external consultation.

4 ALTERNATIVE OPTIONS

4.1 Officers have set out alternative options above which have been assessed. The Committee can support the proposed option - in full or with variations - or offer an alternative view which can be fed into the Cabinet paper.

5 FINANCIAL IMPLICATIONS

5.1 There are no direct financial implications arising from this report.

6 LEGAL AND GOVERNANCE CONSIDERATIONS

6.1 In accordance with Section 6 of the Accounts and Audit Regulations 2011, the Chief Finance Officer and the Chief Executive are responsible for maintaining an adequate and effective internal audit of the Council's accounting records, control systems and financial transactions including any operations affecting the financial arrangements or the finances of the Council.

6.2 The delegation of functions to another local authority is permissible under sections 101 and 102 of the Local Government Act 1972 and sections 19 and 20 of the Local Government Act 2000. Formal approval for this delegation will be sought in due course.

6.3 The Audit and Risk Committee is responsible for oversight of Internal Audit work and assessing whether the Council has adequate provision in place hence the reason for the report.

7 EQUALITY IMPACT ASSESSMENT

7.1 An Equality Impact Assessment (EqIA) has not been completed for the following as this report does not impact on Council policies and procedures.

8 COMMUNITY SAFETY IMPLICATIONS

8.1 There are no community safety implications.

9 HEALTH AND WELLBEING IMPLICATIONS

9.1 There are no health and wellbeing implications.

10 CONCLUSION AND SUMMARY OF REASONS FOR THE RECOMMENDATIONS

10.1 It is important that the Council has appropriate internal audit arrangements in place. The proposed option effectively secures the future provision of internal audit without comprising the high performance and low cost model in place.

11 BACKGROUND PAPERS

11.1 There are no additional background papers to the report.

12 APPENDICES

12.1 None

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